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**The U.S. Election and the Global Financial Crisis
Remarks at the De Kerrilleau Society
Albury, NSW
November 21, 2008**

**Daniel A. Clune
Deputy Chief of Mission
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Thank you, Lauriston¹, for that kind introduction. It's a great pleasure for me to have the opportunity to visit Albury and speak with you today.

What I'd like to do is to say a few words on two topics, the significance of the recent U.S. election and the steps taken in the U.S. and elsewhere to counter the effects of the global financial crisis and then open up the floor to your questions on these and any other topics that may interest you.

Significance of the Election

One of the most significant things about the recent election in the U.S. – as well as the election in Australia a year ago -- is something that we all sometimes take for granted: the fact that our elections occur with such regularity. Power is turned over to a different administration without violence

¹ Lauriston Muirhead, President of the De Kerrilleau Society

based on the will of the people expressed through the ballot box. This timely change of personnel within a stable framework of government is the proof of the working DNA of any democracy.

One of the most important common strands of that DNA is the secret ballot that slowly spread throughout America's states over the last half of the 19th century and freed the average citizen from the corrupt power of political bosses.

The secret ballot is known academically as the Australian ballot because it was first used in an election was in Tasmania on February 7, 1856. Victoria and South Australia followed suit in March and April of that same year. Both England and the United States adopted this crucial innovation rather late—Grover Cleveland being the

first president elected completely under the Australian ballot in 1892.

So, we Americans owe special thanks to you, our Australian friends, for one of the most important features of our elections.

In historical terms, this most recent election in the U.S. was especially significant for Americans because for the first time in our history an African American has been elected President.

Race has been a troubling feature of our history.

Our Constitution, which is such an admirable document in so many ways, implicitly recognized the institution of slavery. Article 1, Section 2, which deals with the apportionment of representatives in the Congress, reads:

Representatives and direct Taxes shall be apportioned among the several States which may be included within this Union, according to their respective Numbers, which shall be determined by adding to the whole Number of free Persons, including those bound to Service for a Term of Years, and excluding Indians not taxed, three fifths of all other Persons.

The “all other persons” refers to slaves of African descent, which were counted for this purpose as $\frac{3}{5}$ of a person.

We had a great Civil War over the issue of slavery in which 600,000 Americans died. More than half of all Americans, who died as soldiers during our country’s wars since 1776, died in the Civil War.

One hundred years later, Martin Luther King stood on the steps of the Lincoln Memorial in Washington and, in his

famous “I Have a Dream” speech described the contradictions that still existed between the ideals expressed in our Constitution and Declaration of Independence and the treatment of African Americans. He said:

In a sense we've come to our nation's capital to cash a check. When the architects of our republic wrote the magnificent words of the Constitution and the Declaration of Independence, they were signing a promissory note to which every American was to fall heir. This note was a promise that all men, yes, black men as well as white men, would be guaranteed the "unalienable Rights" of "Life, Liberty and the pursuit of Happiness." It is obvious today that America has defaulted on this promissory note, insofar as her citizens of color are concerned. Instead of honoring this

sacred obligation, America has given the Negro people a bad check, a check which has come back marked "insufficient funds".

But we refuse to believe that the bank of justice is bankrupt. We refuse to believe that there are insufficient funds in the great vaults of opportunity of this nation. And so, we've come to cash this check, a check that will give us upon demand the riches of freedom and the security of justice."

In one sense, the promissory note that Dr. King spoke of in his speech has finally been paid with the election of an African American to the highest elected office in the United States. With our history, I think you can appreciate the special significance of this election for us, which also serves

as a good reminder of the character of the average American voter.

Some observers have noted certain similarities between President-Elect Obama and perhaps our greatest President, Abraham Lincoln, who held office during the Civil War.

Both are from the State of Illinois. Neither had extensive state or federal legislative experience before being drafted by their parties and both were chosen, in part, because of their extraordinary eloquence. The year of Obama's inauguration will be the two hundredth anniversary of Lincoln's birth, and his election is a major milestone in the struggle initiated by Lincoln to ensure every citizen's equality under the Constitution. All of us hope that President Elect Obama's performance in office measures up to the high standard set by President Lincoln.

We fully expect that the new Administration, which assumes office January 20, will continue America's close partnership with Australia. Ours is a relationship based upon common national interests and shared democratic values. It is one that has existed and flourished regardless of which party has held office in Washington or Canberra.

And we look forward to continuing to work with Australia to address the great challenges of our day.

Global Financial Crisis

One of those challenges is the Global Financial Crisis and I'd like to say a few words on steps taken in the U.S. and elsewhere to counter the effects of that crisis

First of all, what happened?

Over the last year there have been truly remarkable changes in the world economy– which has led to growth forecasts being revised down sharply around the world. The G7 economies are now expected to be in recession this year and world growth has been revised down significantly since forecasts of even a few months ago.

A trigger for the crisis was the end of the U.S. housing boom which led to major losses on mortgages and mortgage-related assets for many financial institutions. This event contributed to the ending of a global credit boom based on a fundamental under-pricing of risk, by the excessive leverage of financial institutions, and by an increasing reliance on

complex and opaque financial instruments that have proven to be fragile under stress.

One of the key sources for the global economic crisis was the unchecked expansion of the credit derivatives market – which greatly increased risk in the international financial system. Many of these derivatives and complex products were highly rated by international credit agencies despite their inherent risk. The sale of sub-prime mortgage products as AAA investments, for example, led to their purchase by conservative institutional investors who thought they could get high returns with virtually no risk. Unfortunately, when something looks too good to be true, it usually is – and high returns with no risk definitely falls into that category.

Financial institutions around the world which held these derivative credit products incurred major losses when their values fell sharply last year. This compromised their financial stability and, more importantly for us in the real world, their ability to lend. The unwinding of this credit boom (and the associated financial losses) led to a withdrawal of many investors from credit markets and efforts to reduce debt by financial institutions, both of which have acted to reduce credit available to households and businesses. This credit squeeze is, in turn, a principal cause of the economic slowdown of the real economy now taking place in many countries.

This situation led to the rescue package in the United States which promised financial support, through equity infusions,

for banks and other financial institutions to secure their future.

The financial rescue package passed by Congress allows our Treasury Department to purchase equity directly from financial institutions – the fastest and surest means to stabilize the financial system. Treasury Secretary Paulson announced plans to release up to \$US250 billion of the initial Troubled Assets Relief Program (TARP) funding to purchase equity stakes in U.S. banks. By helping repair balance sheets hurt by the financial crisis, the ability of banks to keep lending to their customers is being strengthened.

The U.S. Treasury is purchasing \$125 billion in preferred stock in nine of the largest U.S. financial institutions. In

addition to these banks, up to 6,000 other banks are eligible, although we don't know precisely how many will apply. This program has been designed to encourage banks to buy back the Government's shares when markets stabilize.

The actions taken by the US Treasury, the Federal Reserve and the FDIC in October have clearly helped stabilize our financial system. Before this action, credit markets were largely frozen, denying financial institutions, businesses and consumers access to vital funding and credit. U.S. and European financial institutions were under extreme pressure, and investor confidence was falling. As part of these efforts, the FDIC announced it would temporarily guarantee most new debt of participating organizations for up to three years. In addition, the FDIC provided an unlimited guarantee on non-interest bearing transaction

accounts that expires at the end of next year. This is particularly important because most U.S. businesses use these kinds of accounts for their day-to-day operations.

These necessary steps, along with actions in other major economies, appear to have halted the spread of the global financial crisis. The financial system still remains fragile in the face of an economic downturn in the United States and abroad and financial institutions' balance sheets still hold significant illiquid assets. In this situation it is notable that international cooperation and coordination has increased.

An excellent example of this is the recent meeting of the G20 in Washington, which included the G7 economies and other key countries such as Australia, China, India, Brazil and South Africa.

From 14-15 November, the Group of 20 met in Washington and emphasized their commitment to bolster their economies and to overhaul the international regulatory system to guard against further financial crises. The G20 communiqué stated that ‘We are determined to enhance our cooperation and work together to restore global growth and achieve needed reforms in the world’s financial systems’.

The G20 countries have undertaken in principle to pursue coordinated expansionary policy in the future – to overcome the prospect of a world recession. This action is particularly timely given that many economies have been experiencing negative growth in recent quarters. Against this background, it is a remarkable and considerable achievement that Australia continues to enjoy positive

economic growth. Clearly, Australia is a worthwhile economic partner for the United States!

There has been a continuing broadening and expansion of the economic relationship between the United States and Australia in recent years – in trade in goods and services and in flows of international investment between the two countries. These changes have occurred against the background of shrinking border (and behind-the-border) barriers to trade and investment due to the bilateral free trade agreement.

The United States-Australia Free Trade Agreement (FTA) entered into force on January 1, 2005 and since then, flows of trade between our countries have continued to increase. Two-way annual goods trade in 2007 was A\$33.7 billion and

two-way services trade in 2007 was A\$14.0 billion. In the first three years under the FTA (2005-2007), bilateral trade in goods and services expanded by 35 percent. Clearly, the FTA has been effective in opening up new markets for firms in both countries.

The FTA also ensures a secure, predictable legal framework for two-way flows of investment. The United States is the largest foreign investor in Australia, with stocks of direct and portfolio investment exceeding \$A120 billion and \$A200 billion respectively. American companies and their affiliates in Australia had over \$200 billion in Australian assets and employed over 320,000 people in 2005 (the most recent year for which we have detailed information). Australian investment in the US has also been growing rapidly and

Australians are one of the largest foreign investors in retail property in the United States.

Perhaps the expansion of services trade and investment represents one of the greatest opportunities for the future.

Australian services industries, such as the legal, engineering and accounting professions, have significantly improved access to the US market.

This year, Australian negotiators were successful in reaching agreement with the US State of Delaware, to allow

Australian lawyers to practice there for the first time. By 30

June 2008, Australian CPAs and Chartered Accountants

had access to all but two US jurisdictions. And in

September, Engineers Australia signed a pact with their

counterparts in the state of Texas which will make it easier

for qualified Australian engineers to be licensed to provide engineering services in Texas.

Notably, Australian negotiators have secured recognition of the FTA's government procurement provisions in 31 US states and are seeking to extend this to the remaining states. The FTA has also facilitated Australian firms entering the \$US200 billion defense procurement market in the United States.

Just this month, Perth-based shipbuilder Austal secured a \$US1.6 billion (\$A2.5 billion) contract to build defense ferries for the US navy. Under the contract, Austal will build 10 high-speed vessels (JHSVs) and is also in contention for a much larger contract for 55 Littoral combat ships.

Conclusion

In conclusion, I would like to emphasize again that the new Administration will continue America's close partnership with Australia. There has always been a close bond between our countries built on shared values, culture, our system of government and a common language. Of course, there are always challenges, such as the current global economic crisis. But together the major economies of the world, including the United States and Australia, are working towards strengthening the international financial system and restructuring it to ensure continued future growth. These circumstances should therefore encourage us to be positive about the future – another great tradition in both our countries.

Thank you and now I'd be glad to answer your questions on these and any other topics that may interest you.